



## An Analysis of Impact on Delayed Payments Policy on Growth of MSME Sector

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### Abstract:

*Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in India's economic growth and underscores the importance of various improvement measures such as credit policy, payment policy, and saving. Specifically, it emphasizes the significance of payment policy in determining the growth trajectory of MSMEs, with a focus on analyzing the impact of delayed payment policies on this sector's growth. Statistical analysis can help in understanding the extent to which delayed payment policies affect MSMEs and subsequently influence the broader Indian economy. Furthermore, the deployment of findings from such research can inform policymakers and stakeholders about the importance of effective payment policies in sustaining MSME growth, which in turn contributes significantly to the overall economic development of India.*

*However, it's worth noting that conducting a robust statistical analysis requires careful consideration of various factors such as data quality, sample size, control variables, and statistical methods to ensure the validity and reliability of the findings. Additionally, integrating qualitative insights from stakeholders in the MSME sector can provide a comprehensive understanding of the challenges and opportunities associated with payment policies.*

*Keywords: Micro, Small, and Medium Enterprises (MSMEs), Payment Policies, financial stability and deployment.*

### Introduction:

**Micro, Small, and Medium Enterprises (MSMEs):** Micro, Small, and Medium Enterprises (MSMEs) are businesses that are characterized by their relatively small scale of operations and workforce. MSMEs contribute to economic growth by generating income, creating wealth, and stimulating demand for goods and services. Their activities contribute to the overall expansion of the economy, driving productivity gains and increasing competitiveness. The classification of MSMEs varies from one country to another, but it typically depends on factors such as revenue, capital investment, and number of employees.

Here's a brief overview of the classification of MSMEs based on the criteria typically used:

- 1. Micro Enterprises:** These are the smallest entities, usually consisting of very few employees (often fewer than 10) and minimal capital investment. Micro-enterprises are often started by individuals or families and may operate out of homes or small rented spaces. They are typically characterized by low revenue and limited market reach.
- 2. Small Enterprises:** Small enterprises are slightly larger in scale compared to micro-enterprises. They may have more employees (usually up to 50) and slightly higher capital investment and revenue. Small enterprises often have a more formalized

structure compared to micro-enterprises and may operate in a wider geographic area or serve a larger customer base.

**3. Medium Enterprises:** Medium enterprises are larger than both micro and small enterprises but are still smaller than large corporations. They typically have more employees (usually between 50 and 250) and higher revenue and capital investment compared to small enterprises. Medium enterprises may have more complex operations and organizational structures, and they may also have a broader market presence.

Governments and international organizations often provide support and incentives to MSMEs because of their significant contributions to employment generation, poverty reduction, and economic growth. These support measures may include financial assistance, access to credit, technical assistance, capacity building, and favorable regulatory frameworks aimed at promoting the growth and sustainability of MSMEs.

### **Payment Policies:**

Payment policies are guidelines and procedures established by businesses to govern how they handle payments from customers, clients, or partners. These policies outline the terms and conditions for payment, including payment methods, deadlines, late fees, and other relevant details. Payment policies are crucial for ensuring smooth financial transactions and maintaining positive relationships with stakeholders. Accepted Payment Methods specifies the forms of payment that the business accepts, such as cash, checks, credit/debit cards, bank transfers, electronic payments (e.g., PayPal, Venom), or other methods. It may also detail any restrictions or preferences regarding payment methods. Payment terms define when payments are due and under what conditions. Payment terms include "Net 30" (payment due within

30 days of invoice date), "Upon Receipt" (payment due immediately), or other customized terms negotiated between the business and the customer. Late Payment Penalties consequences of late payments, including any late fees, interest charges, or penalties imposed for overdue invoices. Clear policies regarding late payments help encourage timely payments and deter customers from delaying payments.

This section of the payment policy specifies any available discounts, their terms, and the eligibility criteria. Payment Disputes and Resolution Procedures for handling payment disputes, discrepancies, or billing errors are outlined in this section. It may include instructions for customers to follow if they have questions or concerns about invoices, as well as the process for resolving disputes in a timely and fair manner. Payment Processing and Reconciliation the process for receiving, recording, and reconciling payments in the business's accounting system. It may include instructions for how customers should reference invoices or provide remittance information to ensure accurate payment processing. The payment policy should address the process for issuing refunds or processing returns, including any associated fees, timelines, and conditions for eligibility. Businesses should ensure that their payment policies comply with relevant privacy regulations and security standards to protect sensitive payment information provided by customers. Communication Channels provides information on how customers can contact the business regarding payment-related inquiries, such as billing questions, payment arrangements, or requests for payment extensions.

By establishing clear and transparent payment policies, businesses can facilitate smoother transactions, reduce payment disputes, improve cash flow management, and foster positive relationships with customers and partners. It's essential for

businesses to communicate their payment policies effectively to customers through invoices, contracts, website disclosures, and other relevant channels.

#### **Financial Stability:**

Financial stability refers to the ability of an organization to withstand financial shocks and uncertainties while maintaining its core operations and meeting its financial obligations. It involves having a strong financial position, adequate liquidity, and sustainable profitability over the long term. Adhering to regulatory requirements, accounting standards, and good governance practices enhances transparency and trust among stakeholders, contributing to financial stability.

#### **Financial Deployment:**

Financial deployment, also known as capital allocation or investment management, refers to the strategic allocation of financial resources to various uses or investment opportunities that generate returns and create value for the organization. This involves making decisions about how to deploy funds efficiently and effectively to achieve the organization's objectives. Overall, achieving financial stability and effective financial deployment requires sound financial management practices, robust risk management, strategic planning, and disciplined decision-making to allocate resources optimally and drive sustainable growth and value creation.

#### **Literature Review:**

**Nada, D. Q., Suryaningsum, S., & Negara, H. K. S. (2021, December).** The literature review will discuss the adoption of server-based e-commerce, specifically the use of QRIS, readiness of MSMEs in adopting information technology, application of QRIS on MSMEs, and the constraints faced by MSMEs in implementing QRIS. The paper is significant because server-based e-commerce,

particularly in the form of e-wallets or digital wallets, is becoming increasingly popular as a cashless payment system. Understanding the readiness and challenges faced by MSMEs in adopting such technology is crucial in facilitating their participation in digital payment ecosystems. QRIS serves as a standardized system for QR code payments, and the paper aims to examine its application in the context of MSMEs. This involves analyzing the role of regulators and standards in promoting the use of QRIS and its impact on MSMEs. The research seeks to explore the application of QRIS to MSMEs, considering factors such as its role, limitations, and impact on the income of MSME traders. By tracing relevant literature that utilizes QRIS as a payment method, the study aims to provide insights into its benefits for MSMEs.

The author focus on QRIS of MSMEs and also focus on challenges faced by MSME adopting new technology for survive in the market, particularly in the rapidly evolving digital payment landscape; the research underscores the importance of understanding these obstacles for the survival and competitiveness of MSMEs in the market.

**Jenita, J., Yuwono, A., Heriana, T., Dewi, S., & Sari, M. D. (2022).** The author emphasizes the belief that effectively leveraging digital tools in managing small MSMEs can lead to profitability and sustainability. In today's modern world, digital payment technology is considered essential for businesses of all sizes, including medium-sized enterprises.

As per the suggestions provided by the author, profitability and sustainability of the business can be enhanced by adopting the solutions driven by the digital payment methods. This may be hypothetical to highlight the impact of digital payment methods but the data that has been collected by the author it's supportive to this conclusion. In this entire research the author

has emphasized the claims of digital technology importance by applying the test of validity and reliability with regards to the small business owners. The author has gathered data from various sources of the secondary Publications which are relevant to the phenomena under study. This secondary data is specifically relevant to the hypothesis form by the authors to arrive at a solid conclusion. The study relies on a literature review to gain insights into the subject matter. Finally to summarize the entire efforts put by the authors in this present research it would be concluded that the digital payment methods used by the small business owners is helpful to them to them the Profitability in their business and this aspect has been tested validated by the secondary sources of data and also by conducting river is analysis on the opinions collected from the field.

The author highlights on the point of utilizing digital tools in managing MSMEs which affect on profitability and sustainability. The author suggests that by leveraging digital payment methods effectively, MSMEs can streamline their operations, improve financial management, and enhance customer experience, ultimately leading to increased profitability and long-term sustainability in modern business.

**Sekhar, S. C., & Radha, N. (2019).**

The research findings can provide valuable insights for policy makers on how to support SMEs in improving their competitiveness. Policy makers can use this information to develop and implement policies and initiatives that create a conducive environment for SME growth, such as providing access to finance, facilitating technology adoption, and promoting international trade. Managers of SMEs can benefit from the research by gaining access to proven strategies for sustaining growth and competing effectively in global markets. They can use these strategies to optimize their business operations, develop innovative

products and services, and expand their market reach. Additionally, the research may offer guidance on talent management, strategic partnerships, and risk mitigation strategies. Owners of MSMEs can use the research findings to make informed decisions about their business strategies and investments. They can identify opportunities for growth, assess potential risks, and develop long-term sustainability plans. By implementing the recommended strategies, MSME owners can enhance their competitive advantage and position their businesses for success in the global marketplace. The research serves as a valuable resource for stakeholders involved in supporting and managing SMEs. By introducing effective strategies for sustaining growth and enhancing competitiveness, the research can contribute to the success and resilience of SMEs in an increasingly competitive global landscape.

The authors suggest that policymakers can utilize the information from their research to develop and implement policies and initiatives aimed at fostering the growth of Small and Medium Enterprises (SMEs) in the global market. By leveraging the insights provided in the research findings, policymakers can design strategies that create a supportive environment for SMEs to thrive and compete effectively on a global scale.

**Zhang, Q., Tsao, Y. C., & Chen, T. H. (2014).** The paper investigates the impact of advance payment terms on a buyer's inventory policy, considering both scenarios of full advance payment and partial advance payment with delayed payment. The study aims to derive the optimal ordering policy for the buyer by minimizing total inventory costs, which include holding costs, ordering costs, and interest costs resulting from advance or delayed payments. In the case of full advance payment, where all payment is made up front, the buyer's optimal replenishment cycle is primarily influenced

by the price discount associated with advance payment. Interestingly, the length of the advance payment period does not significantly affect the buyer's ordering policy. When payments are made partially in advance and partially delayed, the buyer's replenishment cycle is still not influenced by the length of the advance period. However, the delayed payment period and the price discount associated with advance payment may impact the inventory policy. To derive the optimal replenishment cycle, the study employs a discounted cash flow model, which demonstrates that the replenishment cycle is inversely related to the length of the advance payment period. This suggests that longer advance periods may lead to shorter replenishment cycles. Numerical examples are utilized in the paper to illustrate the findings and implications of the research, providing practical insights into how different payment terms can affect a buyer's inventory management decisions and overall costs. The study sheds light on how advance payment terms can affect a buyer's inventory policy and provides insights into optimizing inventory management strategies under different payment conditions. The findings contribute to the understanding of supply chain dynamics and offer practical implications for buyers and suppliers in managing inventory and cash flow effectively.

The study reflects that how advance payment terms impact on buyer's inventory policy, optimizing inventory management strategies under different payment conditions. Also focus on advance payment terms, supply chain dynamics, practical implications of inventory management for buyers and suppliers. The research contributes to a deeper understanding of relation between advance payment terms, inventory management strategies, and

supply chain dynamics. It provides valuable guidance for stakeholders involved in managing inventories and conducting transactions within supply chains, ultimately helping to optimize operations and improve overall performance.

### Objective of the Study:

1. To comprehensively study the delayed payment policies of MSMEs.
2. To study semantic relation of Financial Growth of MSMEs and delayed payment in India

### Research Methodology:

**Type of Research:** Descriptive & Qualitative Research.

**Sources of Data:** Secondary Data.

According to C. R. Kothari in his book namely, 'Research Methodology', the research problem derived in the form of below mentioned mathematical expression-  
 $P(O_j \setminus I, C_j, N)$

In the present research paper, the statement of research problem may be offered as mentioned below-

$P$ =Probability

$O_j$ = relation between delayed payments of MSMEs and Financial Growth

$I$ = Financial Development of MSME's

$C_j$ = Growth of MSMEs.

$N$ =SIDBI rules and regulations, political and social.

### Hypothesis:

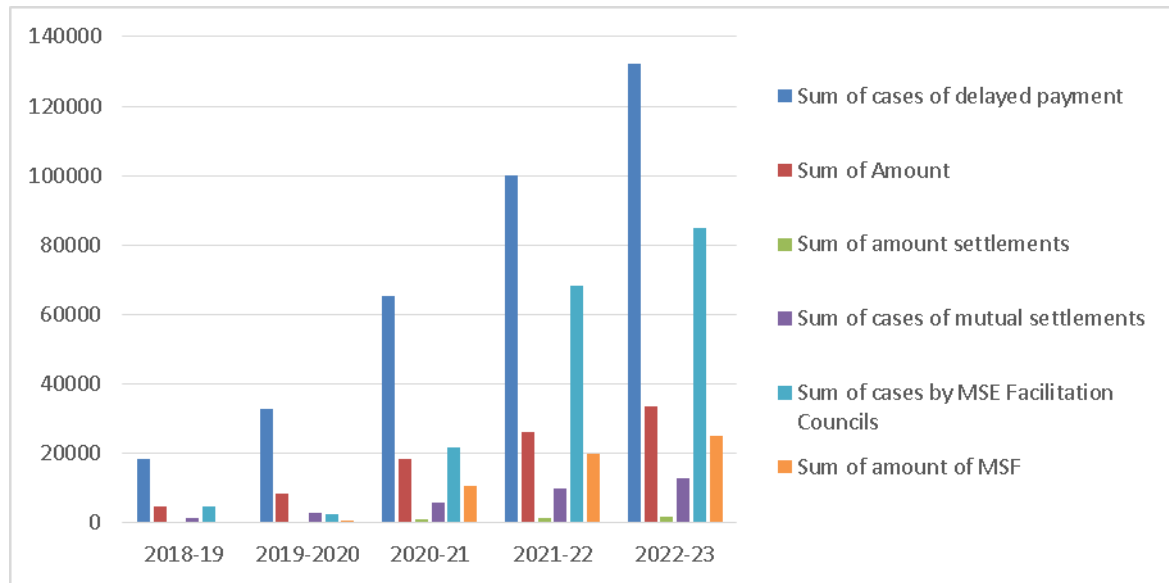
$H_0$ : There is no significant difference between financial growth and delayed payment policies

$H_1$ : There is significant difference between financial growth and delayed payment policies

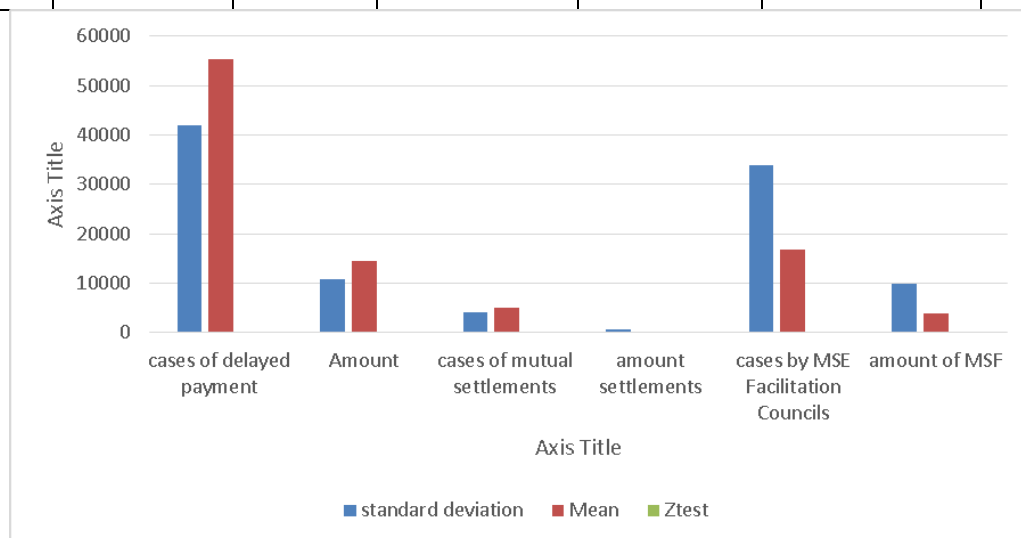


**Data Analysis:**

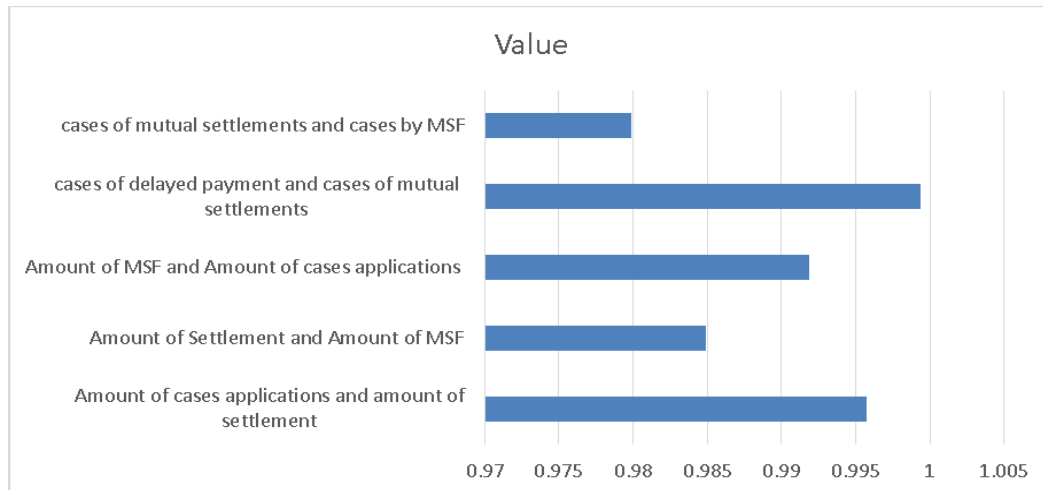
Year	Cases Of Delayed Payment	Amount	Cases Of Mutual Settlements	Amount Settlements	Cases By MSE-Facilitation Councils	Amount Of MSF
2018-19	18509	4797.81	1407	0.53	4682	0
2019-20	32843	8505.19	2891	348.9	2347	573.37
2020-21	65142	18466.49	5798	885.07	21561	10424.07
2021-22	1,00,152	26,200.58	9735	1401	68202	19962.3
2022-23	132058	33519.44	12651	1702.13	84860	24861.36



Test	Cases of delayed payment	Amount	cases of mutual settlements	amount settlements	cases by MSE Facilitation Councils	amount of MSF
Standard deviation	41989.45	10698.84	4189.422	632.7908	33898.52	9963.288
Mean	55439.87	14592.97	4927.382	208.1024	16881.95	3816.577
Ztest	0.223159	0.219367	0.20117	0.009898	0.099765	0.048328



Correlation	Value
Amount of cases applications and amount of settlement	0.995729
Amount of Settlement and Amount of MSF	0.984906
Amount of MSF and Amount of cases applications	0.991862
cases of delayed payment and cases of mutual settlements	0.999377
cases of mutual settlements and cases by MSF	0.979909



### Government View of MSME delayed Payments:

The provisions outlined in Sections 15-24 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, serve as crucial safeguards for Micro and Small Enterprises (MSEs) in India, particularly in addressing the issue of delayed payments by buyers. MSE suppliers have the right to approach the Micro and Small Enterprises Facilitation Council (MSEFC) established under the Act if there is a delay in payment beyond 45 days. This provision ensures that MSEs have a recourse mechanism to address delayed payment issues.

Section 16 of the MSMED Act mandates that delayed payments to supplier units incur compound interest. The monthly interest rate is set at three times the bank rate notified by the Reserve Bank of India. This provision acts as a deterrent against delayed payments and provides compensation to MSEs for the financial losses incurred due to delays.

Launch of the Samadhaan Portal: In line with the objectives of the MSMED Act,

the Ministry of Micro, Small and Medium Enterprises (MSME) launched the Samadhaan portal on October 30, 2017. This portal serves as a central platform providing information about payments pending with Central Public Sector Enterprises (CPSEs), Central Ministries, State Governments, and other buyers in respect of MSMEs.

The Samadhaan portal facilitates MSEs to file their delayed payment complaints online. Once a complaint is filed, the case is automatically registered with the relevant MSEFC after 15 days. This streamlined process expedites the resolution of delayed payment issues and ensures timely payments to MSMEs.

Central Ministries and State Governments are provided with user IDs and passwords to access the portal. They can monitor delayed payment cases related to organizations under their jurisdiction, enabling better oversight and accountability in addressing delayed payment issues.

### Conclusion:

The impact of delayed payment policies on the growth of the MSME sector

can be significant and multifaceted. Delayed payments can create cash flow challenges for MSMEs, which often operate with limited financial resources. When payments from customers are delayed, the financial struggles faced by MSMEs can hinder their growth and sustainability. Addressing these challenges often requires a combination of supportive policies, access to financing, capacity-building initiatives, and efforts to improve market access and competitiveness. This can hinder their ability to invest in growth initiatives or expand their operations. Delayed payments tie up working capital for MSMEs, as they may have to wait longer to receive payment for goods or services provided. This can limit their ability to purchase inventory, invest in equipment, or fund marketing efforts, all of which are essential for business growth. MSMEs that rely on timely payments to fund expansion plans or investment in new markets may face setbacks or delays in their growth initiatives due to delayed payments. This can hinder their ability to seize new opportunities, enter into new contracts, or scale their operations effectively. To bridge the gap caused by delayed payments, MSMEs may be forced to rely on external financing, such as loans or credit lines. This can lead to increased debt levels and interest expenses, which can further strain their finances and inhibit long-term growth prospects. Delayed payments can also strain relationships with suppliers, as MSMEs may struggle to pay their own suppliers on time. This can result in strained relationships, reduced trust, and potentially higher costs as suppliers may demand faster payment terms or higher prices to compensate for the risk of late payment.

MSMEs that face persistent delays in payment may also struggle to innovate or remain competitive in their respective industries. Without access to timely funds, they may lack the resources to invest in research and development, technology

upgrades, or employee training, which are essential for staying ahead in today's rapidly evolving markets. Recognizing the challenges posed by delayed payments, some governments have introduced policies and regulations aimed at addressing this issue. For example, mandating shorter payment terms, establishing dispute resolution mechanisms, or imposing penalties for late payments can help alleviate the burden on MSMEs and foster a more conducive business environment for growth. In conclusion, delayed payment policies can have a detrimental impact on the growth and sustainability of the MSME sector. Addressing this issue requires a coordinated effort from policymakers, businesses, and other stakeholders to ensure timely payments and support the continued growth and success of MSMEs.

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